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# Boston Municipal Research Bureau

**SPECIAL REPORT**

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## WHAT CAN BE DONE TO CONTROL SCHOOL SPENDING? An Integrated Financial Management System Is A Key Part Of The Answer

The Boston School Department must make a firm commitment this year to live within its budget. To stay within budget limits it needs to build up its management capacity and develop a reliable system of expenditure control. The Department must improve its management capacity both by hiring and retaining highly trained personnel and developing reliable information reporting systems.

The School Department faced a substantial appropriation deficit from the time classes began last fall. However, efforts during the year to determine actual spending with existing school reports exposed the weaknesses of the Department's management operations and expenditure control systems. The Department's expenditure reports differed from the City Auditor's school spending reports and reconciliation was almost impossible. In its previous Special Report, the Bureau estimated that school spending would not exceed \$238 million, which is less than had been expected. While the Department initiated cost reduction steps late in the year, much of the reduced spending total can be attributed to overencumbrances and overbudgeting of accounts. Those had led to higher expectations about expenditures. With their original overestimates of actual needs and the weaknesses in existing reports, school officials themselves were unaware of the true spending level.

Three separate groups, two of which had Bureau participation, have analyzed the management and expenditure control functions of the School Department. While working independently, all three identified the same basic weaknesses and made similar recommendations. School officials are now carrying out some of the recommendations. Implementation of the full reform program must be a top priority for the coming year.

This year's overspending continues a series of annual deficits dating back to 1972. In the eight fiscal years from 1972 through FY 1980, the School Committee spent an aggregate of \$60 million in excess of appropriations. This figure does not include the \$8 million of FY 1980 costs that were absorbed in the FY 1981 expenses. That record and the continued lack of effective controls over school spending are key reasons why the City of Boston may have difficulty selling tax anticipation notes early this year and general obligation bonds later.

Controlling school spending is especially important now because Proposition 2½ places an absolute limit on the amount the city can raise in property taxes. In FY 1982 that limit is \$440 million, a reduction of \$77.8 million from last year. Whatever the School Department spends in excess of its appropriation must be raised in next year's tax rate, thereby requiring even further cuts in city departmental operations. Even after counting the \$6.4 million appropriated in May from a special state aid payment to partially cover last year's school overspending, the Bureau projects a FY 1981 school deficit of between \$15-22 million. School appropriations cannot be reduced below \$210 million since the School Committee's limited fiscal autonomy was not affected by Proposition 2½.

With the weaknesses of the Department's financial operations and expenditure control systems exposed last year, school officials sought help to strengthen their management capacity. The three separate groups set up as a result of that included a special School Committee sub-committee chaired by Elvira "Pixie" Palladino. In addition, the public accounting firm of Ernst & Whinney agreed to work on a "pro bono" basis to assist then Acting Superintendent Paul Kennedy. Finally, Acting Superintendent Joseph McDonough formed a "Blue Ribbon" committee consisting of top officials from local public school systems, colleges and the business community. This group established a technical sub-committee of individuals from their institutions to work closely with school officials. The Palladino Committee, Ernst & Whinney and the Blue Ribbon technical sub-committee have issued their reports. Review of the final reports and available minutes of meetings of the three groups identified a common list of findings and recommendations.

### Summary of Findings

--The School Department lacks an integrated financial management system. The Department's budget, payroll, personnel and accounting systems suffer from the lack of a single data base. Each system was developed independently without any effort to integrate information. This makes it difficult to compare information and limits the systems' usefulness for management control. For example, the personnel system uses function codes different from those of the budget system and does not include salary information. The cost-center based accounting system used for the general school operations was not designed also to manage federal and state grant programs. In addition to these problems, school officials have been unable to keep the information in the systems current, and thus many reports are not timely. The end result is a weak control environment.

--Further problems stem from the fact that the School Department does not have good manual information systems to back up or support the computerized systems. The School Department's control weakness originates from the inability to manage the manual procedures which support the automated systems. Necessary disciplines are lacking to ensure that data are received, coded, inputted, reviewed or corrected in an accurate and timely fashion. Also the information systems have suffered from insufficient staff and financial resources for adequate maintenance.

--The School Department has not established a formal position control system to ensure that the number of positions actually budgeted will control the number of people on the payrolls. About 75% of the school budget is personnel related; so this control mechanism must be a top priority.

--The personnel system is not completely automated and lacks essential information such as salary, seniority, degrees and credits for each employee. Not all personnel are yet entered in the system. Personnel information is not current and a serious lag exists in updating this data in the computer. Too few terminals and data entry staff are available to provide complete maintenance of personnel information.

--The budget format with its numerous cost centers is too cumbersome and impedes the ability to control. In certain cases the City Auditor and the School Department maintain different code structures for substantially identical budget accounts. This incompatibility makes it difficult to establish the necessary linkages with City Hall.

--Too many key school management positions are currently filled by persons who lack the necessary training and experience. Salary levels, traditional promotion procedures and political considerations have all contributed to the situation.

--Control has been difficult because school officials involved in management operations, budget, personnel, payroll and information system development have not communicated or worked cooperatively with each other. These same problems also exist between the School Department and City Hall.

--The special accounting system for state and federal grants was developed independently and does not relate to the Department's operating budget. In FY 1981, special grants totaled about \$26 million yet their budget and accounting systems do not tie in with the Department's operational systems.

### Summary of Recommendations

--Having identified the various weaknesses of the School Department's management and expenditure control operations, the three groups independently prepared their recommendations for immediate short term controls and eventual longer range improvements. More important than any individual recommendation is the need for the School Committee and school officials to commit themselves to provide essential educational services within this year's appropriation total of \$210.5 million. Last year the School Committee did not take action to reduce spending early in the school year even though it was obvious from the opening of classes that the Department faced a deficit of at least \$26 million without additional appropriations.

--A position control system must be established in the Boston Public Schools. The hiring of personnel must be centralized and a system of prior approval must be established before jobs are filled. The offices of budget and personnel must both authorize the filling of an approved budgeted position before the recommendation is submitted to the School Committee. Only after School Committee approval should the person filling the position be placed on the payroll. Encumbrance of personnel appropriations should also be considered. An effective position control system with the necessary links to the budget, personnel, payroll and auditing systems should enable the School Department to control about 75% of its budget.

--Manual systems should be set up to support the computerized systems. These manual systems will require policies, detailed procedures, flow-of-document forms and enforcement provisions for their implementation. Adequate financial and personnel resources should be available to ensure that information is complete and timely and that existing systems are properly maintained.

--The School Department should implement formal reconciliation and control procedures with the records maintained by the City Auditor. The reconciled school monthly expenditure control reports should be sent to cost center managers so they can monitor their expenditures.

--Within the budget, cost centers should be consolidated to allow both the School Department and the City Auditor to effect proper accounting control over school transactions. Cost center breakdown should be modified to allow linkage with City Hall accounts, while continuing to provide detail for reporting needs.

--Grants accounting and budgeting systems must be integrated with other School Department systems and with City Hall controls. It is necessary to strengthen budgetary and accounting control over grant funds.

--Once the necessary short-term expenditure controls are established, the School Department should initiate a systems analysis to determine its integrated management information requirements and user information needs. This effort must be coordinated with all departments which are significantly affected by the maintenance requirements of these systems. Coordination is also needed with City Hall since efforts are underway there to establish a personnel/payroll system and integrated financial systems which should include the School Department.

--Upon completion of the systems analysis, the School Committee should establish a framework for an integrated financial management information system. This would provide the budget, personnel, and payroll departments with reliable and timely information to monitor and control actual expenditures against appropriations and to assist in making

administrative decisions. The cost of such a system will be significant, but the School Committee must build up its management capacity at this time of declining resources.

What Has Happened So Far?

Acting Superintendent McDonough and school officials have begun to implement a number of the recommendations of their outside observers. An improvised manual position-control system has been established. That will be difficult to maintain but the effort must be made. Whether this system can be improved or automated at this time is being studied.

--The School Department's multiple cost centers have been consolidated into fifteen expense codes that would be compatible with the accounts of the City Auditor. This consolidation satisfies the Auditor's need for monitoring overall school spending and allows the School Department to reconcile its more detailed expenditure control report with the consolidated Auditor's expenditure report.

--As part of its audit responsibilities to the city, the firm of Coopers & Lybrand has agreed to quickly analyze the Department's management and financial operations, its reporting systems and its new manual position control system. A report recommending short term controls will be prepared soon after the analysis is completed. The Ernst & Whinney report was the result of a similar analysis.

--Once the short term control steps have been implemented, school officials plan to work with a private consultant to prepare the specifications for a systems analysis study as described in the recommendations.

--The original FY 1982 budget submitted by the Superintendent severely cut back school financial and personnel operations in an effort to bring the budget in at \$210 million. However, at the urging of the Bureau and others involved in the three reports, many of these cuts have been restored. The School Committee should further increase those budgets to allow for the proper maintenance and development of its management systems and the hiring and retaining of highly trained personnel.

The School Committee has far to go before it can be satisfied with its management operations and financial reporting systems. The current efforts should be supported but recognized for the elementary steps they are. Much remains to be done. The new Superintendent should be supported in the steps he must take to bring the Department's management operations up to a more sophisticated level.

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